

# CIPS

*L5M4*

*Advanced Contract & Financial Management*



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# Latest Version: 7.0

## Question: 1

Describe 4 strategies a company could use to develop a supplier. (25 points)

How confident do you feel answering this question? 1- Not confident at all 2- I don't know the topic well - I could write a couple of sentences 3- I'm okay with this topic - I could write a couple of paragraphs 4- I'd be happy with this question, but I'm not an expert 5- Extremely confident- I know a lot about this topic

- A. 3
- B. 1
- C. 4
- D. 2
- E. 5

**Answer: A,C,E**

Explanation:

**A basic answer would include:**

4 different strategies with a simple explanation of each. These could be the following, but other options would count too!

- o Evaluation and certification system
- o Incentives (passing on cost savings, awarding future business)
- o Competitive pressure (give greatest volume of work to best performing supplier)
- o Direct Involvement (partial acquisition, investment in new equipment)

A good response would be set out in the following way:

- Intro paragraph: explain what supplier development is and why a company would do it
- 1 paragraph per strategy- give an explanation of each strategy and an example
- Conclusion paragraph: supplier development helps a company to achieve competitive advantage

**Additional content may include:**

1) Evaluation and certification system

- Set minimum acceptable standards, use KPIs / SLAs / Balanced Scorecard, hold regular performance meetings, state supplier must have X accreditations etc

2) Incentives

- Works best for collaborative relationships
- Provide recognition for good work e.g. contract may have bonus payment for completing a project early

3) Competitive pressure

- Rank suppliers using capability and performance factors. Those that rank highly are selected for future contracts. Capability factors include financial stability, IT systems, R&D capability. Performance Factors include ability to meet delivery agreements and timescales, attitude of supplier

4) Direct Involvement

- Involves knowledge and technology transfer
- May involve personnel exchanges

**An excellent response may also include:**

- Supplier development as a concept can be traced back to Japanese car manufacturing in 50s (you could include this in your introduction)
- The four example strategies mentioned above are from Krause et al
- An explanation of when a company would use each strategy e.g. incentives may be used for an under performing supplier where you want to maintain a good relationship VS competitive pressure would be used when the relationship isn't that important and you have several suppliers you wish to compete against each other.
- examples of the strategies in practice e.g. from your own experience

## Question: 2

What are KPIs and why are they used? Give examples (25 points)

How confident do you feel answering this question? 1- Not confident at all 2- I don't know the topic well

- I could write a couple of sentences 3- I'm okay with this topic - I could write a couple of paragraphs 4- I'd be happy with this question, but I'm not an expert 5- Extremely confident- I know a lot about this topic

- A. 3
- B. 4
- C. 1
- D. 2
- E. 5

**Answer: A,B,E**

Explanation:

**A basic answer would include:**

- Key performance indicator (KPI) is a type of performance measurement.
- KPIs evaluate the success of an organization or of a particular supplier/ activity / contract
- Lots of purposes including; Measure improvement, reward good performance, develop suppliers, strengthen relationships with suppliers, identify suppliers who are under performing/ don't meet your need.
- One example of a KPI

**A good response will also say:**

- KPIs should be SMART- specific, measurable, achievable, relevant, time-bound (Peter Drucker)
- Give several examples of KPIs including:
  - o Cost based KPIs; Purchase price (to industry benchmark), all goods invoiced to contract rate etc.
  - o Quality based KPIs; reliability of service, number of defects
  - o Delivery based KPIs; on-time in full orders, number of items damaged upon delivery(your examples may be different to these- that's fine!)
- KPIs are used to track performance over time- not a one-off event. Suppliers should be monitored against KPIs regularly e.g. review meetings each quarter

**An excellent response may also include:**

- There's a difference between KPIs in goods and service contracts. For service contracts you can use the SERVQUAL model / RATER Framework – give examples

- KPIs include both qualitative and quantitative methods – give examples of each
- A real-life example of KPIs in practice, perhaps from your own experience

### Question: 3

Describe the principles of Simultaneous Engineering (25 points).

How confident do you feel answering this question? 1- Not confident at all 2- I don't know the topic well

- I could write a couple of sentences 3- I'm okay with this topic - I could write a couple of paragraphs 4- I'd be happy with this question, but I'm not an expert 5- Extremely confident- I know a lot about this topic

- A. 2
- B. 5
- C. 4
- D. 3
- E. 1

**Answer: B,C,D**

Explanation:

**A basic answer would include:**

- Simultaneous Engineering is the opposite of 'over the fence engineering' - it's also known as concurrent engineering
- It means different teams are working on different bits of the same project at the same time, rather than waiting for one team to finish and pass it over to the next team – i.e. different stages run simultaneously, rather than consecutively.
- Saves time – leading to products being launched to market quicker
- May lead to improved quality and cost savings
- Is about 'parallelism'

**A good response will also include mention of some of the following principles, with each principle given a separate paragraph and an explanation / example:**

- Teamworking and communication
- Supplier and customer involvement
- Process – a well defined process is essential, use of agreed timescales and goals
- Technology – effective project management is required, could use a tool like Six-Sigma
- Requires senior management support and buy-in

**An excellent response may also include:**

- Real life examples of simultaneous engineering e.g. the development of the Covid Vaccine- usually a vaccine takes years to create, but the Covid vaccine was created using concurrent engineering meaning the different safety tests on the vaccine were all done at the same time, leading to the vaccine being signed off for use much quicker.
- It's a long-term business strategy and not always suitable for every organisation (give examples of when it's a good strategy and when it's not)
- Deeper explanations of the principles and an example of each one in a scenario.

## Question: 4

XYZ Ltd is a manufacturing organisation who is looking to appoint a new supplier of raw materials. Describe 5 selection criteria they could use to find the best supplier. (25 points)

How confident do you feel answering this question? 1- Not confident at all 2- I don't know the topic well - I could write a couple of sentences 3- I'm okay with this topic - I could write a couple of paragraphs 4- I'd be happy with this question, but I'm not an expert 5- Extremely confident- I know a lot about this topic

- A. 3
- B. 1
- C. 4
- D. 2
- E. 5

**Answer: A,C,E**

Explanation:

There's so many different responses you could give to this question. For example you could list 5 out of the 10 of Carter's 10Cs. Or you could give five criteria such as; quality, price, location, speed of delivery and reputation. There's really no wrong answer you can give, providing you tie it back to the question, explain your selection criteria, and give an example.

Note on a question like this if it asks you for 5- you will not get extra points if you name 6 or 7. The examiner will just ignore these, and you'll waste your time.

**A basic answer would include;**

5 criteria and how these would be used in a tender selection to find the best supplier. For example

1) Competency- how good is a supplier? Do they know what they're doing? The tender would ask for references and examples of similar contracts, or test the supplier's ability to deliver via questions the bidders must answer

2) Capacity- is the supplier able to deliver what is being asked? Do they have the number of staff required and the machinery/ technology? XYZ should address this by asking questions or interviewing the supplier

3) Cost – how much will the supplier charge? XYZ should ask the supplier to provide a quote

4) Culture – how compatible is the supplier's culture with XYZ's? For example, if XYZ wants to work collaboratively with a supplier then they need to ensure that the supplier wants this type of relationship, and that there isn't a clash of personalities.

5) Clean- this relates to a supplier's Corporate Responsibility. XYZ could check that suppliers don't have any historical legal issues such as being found guilty of fraud or bribery. Or they could ask to see a copy of their Sustainability Policy.

**A good response would:**

Include a quick introduction and conclusion paragraph and have each of the 5 criteria clearly separated into a separate paragraph. Each paragraph could have a sub-heading with the selection criteria written in CAPITAL LETTERS or numbered 1-5 to make it easy for an examiner to mark.

- A good response would also go into much more detail on each of the 5 criteria and ensure it relates back to XYZ. Where you have an exam question with a case study- any examples you give should refer to XYZ rather than your own personal experience.

**An excellent response would:**

- For each selection criteria clearly state what the criteria is, what this means, why XYZ would look at this criteria, how they could measure this to find the best supplier and provide an example. You could follow the same layout for each selection criteria. E.g.

**COMPETENCY**

XYZ should assess the competency of the suppliers. This means how well they would perform on the contract by looking at their ability and measuring this against the needs of XYZ. XYZ should measure the competency of suppliers against the specification and requirements and could do this in several ways. Firstly, XYZ could ask for references from each of the suppliers invited to tender, where they detail successful delivery on a similar contract. This will show if the supplier is competent and if other customers have been happy with the services provided. Another method of assessing competency is by asking the supplier to put together a written proposal- this will assess if they supplier has fully understood the Specification/ Design Brief and how well they would be able to deliver the project successfully. It is important for XYZ to select a supplier based on competency as this will ensure the contract is a success- if XYZ select an incompetent supplier then it is likely the supplier will underperform, which may impact not only on XYZ's delivery and profits, but also their reputation.

**Question: 5**

John is looking at the potential of three different projects and is considering the Return on Investment. What is meant by this, and what are the benefits and disadvantages of using this method? You should base your response on the information below (25 points)

Project	Money Invested	Profit year 1	Profit year 2	Profit year 3
A	£10k	£3k	£7k	£3k
B	£50k	£10k	£20k	£20k
C	£10k	£3k	£3k	£3k

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- A. 1
- B. 2
- C. 5
- D. 3
- E. 4

**Answer: C,D,E**

Explanation:

**A basic answer would include:**

- A brief description of what ROI is
- 1-2 benefits of using ROI
- 1-2 disadvantages
- A brief reference to the table of information such as what the ROI is for each project

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**A good response would say:**

- ROI is a financial ratio measuring the benefit obtained from an investment- expressed as a ratio or %
- ROI ratio greater than 0 is needed for an investment to be considered
- The calculation is net profit divided by invested capital x 100
- An in depth look at John's options – comparing the results.
  - o Project A – ROI is  $3+7+3$  divided by  $10 \times 100 = 130\%$
  - o Project B – ROI is  $10+20+20$  divided by  $50 \times 100 = 100\%$
  - o Project C – ROI is  $3+3+3$  divided by  $10 \times 100 = 90\%$
- Project A provides the highest ROI after 3 years, Project B 'breaks even', and Project C does not represent a good ROI as the costs of investment are not recouped after 3 years. This project Makes a loss. John should opt for Project A.
- Benefits - aids decision making, easy comparisons between projects
- Disadvantages - can over-simplify complex topic, may cause under-investment

**An excellent response may also include:**

- Mention of Net Present Value- how this works and why it would be important for John to consider as part of his ROI analysis.
- The benefit of ROI is that it is simple and effective BUT ROI can be overly simplistic - calculations can be manipulated, it can be difficult to measure, and there are many different accounting policies
- A deeper analysis of John's projects- although project A has the highest ROI after 3 years, what about after 4 years? ROI doesn't look at trends, and also doesn't consider if the company requires a certain payback period.
- DuPont Analysis – this is a tool to assess ROI and profitability of an organisation

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